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TAGS: [EAID](#) [EFIN](#) [ETRD](#) [WTO](#) [PINS](#) [IZ](#)
SUBJECT: IRAQI FINANCE MINISTER ON BUDGET WOES AND CUSTOMS
DUTIES

REF: BAGHDAD 976

Classified By: Acting EMIN Michael Dodman for reasons 1.4 (b,d).

11. (C) SUMMARY: Iraqi Finance Minister Bayan Jabr continues to lament Iraq's budget woes and the parliamentary restrictions he faces in trying to find ways to meet shortfalls. He told EMIN that he is planning to offer a recisionary amendment ("negative supplemental") in June or July and may be forced to defer a portion of salary payments to government employees. He is also looking for IMF assistance. Jabr offered to be of assistance in preventing the Customs Authority from imposing duties on equipment imported by contractors to implement U.S. assistance projects. However, he said this would require the Prime Minister's authorization and left it with us to come up with an implementing mechanism. END SUMMARY.

Duty Free Is Not So Easy

12. (SBU) EMIN, Treasury Attache and Econoff met with Iraqi Finance Minister Bayan Jabr April 27 to find a way to end the ongoing problem of GOI Customs officials' imposing duties on equipment imported by contractors to implement ITAO and other USG agency assistance projects (Reftel A). Jabr said that if the goods were imported for a GOI entity, then they could be exempt from customs duties. However, he pointed out that customs officials were correct to apply duties to goods consigned to contractors if there was nothing in the documentation to indicate that the goods were being funded by the US Embassy for use in an assistance project for a GOI entity.

13. (SBU) Jabr reacted favorably to EMIN's suggestion that Customs might be able to exempt the equipment from duties if the Embassy certified that the goods were intended for assistance projects to benefit the Iraqi people. Jabr suggested that the Embassy write a letter to the Prime Minister explaining the problem, detailing the various projects and equipment in question, and suggesting a mechanism for Embassy certification. Based on this, Jabr said, the PM could instruct the Finance Ministry to implement said mechanism. Jabr would send the list and an order to the MoF's Customs Directorate who would then disseminate the order to the field, he explained. Upon further reflection, Jabr added that the message to the PM should cover all possible further shipments as well as those currently pending Customs clearance. He advised that the USG should ask that imports be exempt from customs duties and taxes.

Budget Woes Continue

14. (C) Turning to the GOI's ongoing budget woes, Jabr complained that the Council of Representatives (COR) had surrounded him with legal "parameters" that make it extremely difficult to find funds to cover the many shortfalls he faces in Iraq's 2009 budget. In response to EMIN's question about how the GOI will meet its upcoming payments for the massive generator purchase it recently made from General Electric,

Jabr said the matter remained unresolved.

15. (C) The CoR mandated the funding of USD 1.4 billion for the GE and Siemens contracts in the 2009 budget law. Jabr had thought he could increase expending in light of this mandate, a course with which the PM agreed. He indicated that his legal advisor pointed out the budget law imposes a fixed amount for expenditures. According to this opinion, MoF options were either to (a) reallocate funds from other ministries; or (b) seek a higher spending ceiling from the CoR. Jabr further reported that discussions at the Cabinet revealed that ministries did not want to have funds taken from their already slimmed down capital budgets and transferred to the MoE for the GE payments. The Prime Minister told him to increase his spending anyway, to which Jabr claimed he replied, "I can't; it's the law." According to Jabr, the CoM Secretariat has sent a letter to the CoR asking them to raise the budget ceiling to accommodate this extra spending. He also pointed out that the financing deal for these electricity contracts that the MoF was working on with the CBI is also blocked by the CoR's budget provision requiring the MoF to have a majority vote for issuance of any domestic debt.

16. (C) Looking forward, Jabr is already planning to introduce a "negative supplemental" (recisionary amendment) to the budget in June or July that will impose further cuts in all ministries. When asked whether salaries would be cut by 20 percent, an idea attributed to him in the press, he quickly retorted that a portion of the salaries would be "deferred, not cut" and be paid in the future. He said in any event the press got it wrong: it was the Minister of Planning's idea mooted in the cabinet; Jabr had merely made it public. (NOTE:

The GOI had announced salary increases last year amidst much media fanfare. Now, the media is pursuing the wage delay story with equal aggressiveness and alleging that wages will be cut. END NOTE.) Jabr also suggested that the GOI would need to borrow between USD 5 and 7 million, and he hopes to raise this with the International Monetary Fund in May. Finally, he told EMIN, "we need your assistance with Kuwait," noting that service on that debt eats up five percent of the budget; reducing this draw to one percent would be very helpful..

Comment

17. (C) Although he left the ball in the Embassy's court to come up with implementing mechanisms, we are pleased with Jabr's support on the customs duty issue and will address it with the Prime Minister soon. As regards the budget budget, Jabr continues to paint a bleak picture, justified by oil prices that are much lower than anticipated in the 2009 budget assumptions. (As EMIN walked into Jabr's house, the Governor of Anbar was leaving with a glum expression, disappointed that his personal plea did not produce an increase in his province's capital budget.) Jabr used the brief passing of delegations to reiterate the GOI's budget difficulties and the reality of hard budget constraints. Jabr had been under pressure during the budget debates, but now seems to take to the role of keeper of fiscal discipline -- a role he has had to assume (as he never tires of repeating) due to government's "failure" to produce and sell more oil.

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